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SUBJECT: MCC CEO DANILOVICH SEES CAPACITY CHALLENGES  
FIRSTHAND

MAPUTO 00001445 001.2 OF 002

**¶11.** SUMMARY: Ambassador John Danilovich, CEO of the Millennium Challenge Corporation (MCC), met with Mozambican President Armando Guebuza, international donors and private sector representatives, gave a speech on U.S. development assistance at a local university, and visited MCC project sites on November 17-20. Indicative of the challenges of assistance programs in Mozambique, a recurring theme in meetings was the challenge of developing local capacity to implement and participate in the MCC Compact. END SUMMARY.

**¶12.** From November 17-19, Ambassador Danilovich visited Mozambique's Northern provinces. Stops included proposed MCC roads, agriculture and water sanitation projects in Pemba, Nampula, and Nacala. The Ambassador also met with key counterparts including provincial governors, city mayors, and local business and religious leaders.

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Guebuza: I'm responsible for GRM proposal to MCC  
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**¶13.** In a courtesy call November 20th, President Guebuza thanked Ambassador Danilovich for USG support to Mozambique. Guebuza indicated that the GRM's proposal to the MCC for funding reflected his personal input\*&this MCC plan is my plan,<sup>8</sup> he said. The President expressed interest in learning more about other MCC agreements signed in sub-Saharan Africa, especially Sao Tome and Principe. He noted that international and U.S. investment is increasing. Referring to the GRM purchase of the Cahora Bassa hydroelectric dam from Portugal with commercial financing, he declared the act & a second day of independence for the country.<sup>8</sup> Ambassador Danilovich responded that many international companies include MCC indicators and the signing of a Compact as part of their risk analysis before investing in a country. The Ambassador pressed for continued GRM focus on Compact implementation, and to finalize the MCC's tax agreement and to engage qualified local MCA staff. In a subsequent meeting with the MCA Board of Directors that included the Ministers of Planning and Development, Agriculture, and State Administration, he reiterated the importance of timely Compact implementation.

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Private Sector Competitiveness Concerns  
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**¶14.** Private sector representatives from the U.S.-Mozambique Chamber of Commerce (CCMUSA) and the Confederation of Economic Associations of Mozambique (CTA) told Ambassador Danilovich that many Mozambican companies don't yet have the technical capacity and expertise to successfully compete for many of the projects contemplated by MCC, and pressed for MCC

to use Compact funds for capacity building. Representatives also shared a common concern that domestic financing obstacles make it very difficult for the private-sector in Mozambique to compete with foreign companies with better access to international credit, pointing to many existing examples of large-scale projects in Mozambique contracted out to foreign companies, especially from South Africa.

Participants also expressed concern about Chinese companies outcompeting local businesses. Pointing to a similar World Bank strategy, representatives suggested that large MCC contracts be broken into smaller components, which would help local compete.

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International Donors Urge for Closer Coordination  
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¶15. Ambassadors and heads of cooperation from more than 20 diplomatic and international missions had a roundtable discussion with Ambassador Danilovich, the Charge, USAID Director and MCC acting country director. The IMF resident representative expressed concern about MCC's tax exemptions. The Norwegian representative noted that most other donors are providing direct budget support, while the USG through the MCC does not. The French and Dutch Ambassadors urged for more MCC coordination with other donors to minimize overlap and ensure efficient use of the GRM's limited capacity. Ambassador Danilovich pointed to the U.S. legal requirements which prevent the MCC from paying local taxes. He assured participants that coordination efforts are ongoing, noting many joint efforts between the USG and other donors already existed in other countries and were being developed in Mozambique, including with the World Bank, the United Kingdom, and France. The Charge emphasized that while the USG doesn't provide direct budget support bilaterally, USG contributions to international organizations that do provide direct support in Mozambique are significant.

MAPUTO 00001445 002.2 OF 002

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Policy Speech: U.S. Committed to Africa  
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¶16. In a presentation at Maputo's Polytechnic University, Ambassador Danilovich reviewed the depth of the USG's commitment to Africa, including the President's Emergency Plan for AIDS Relief (PEPFAR), the President's Malaria Initiative (PMI), and assistance through USAID and MCC. In an extended question and answer period following, there were many requests for additional information on the specifics of procurement and bidding processes for the MCC Compact, and opportunities for training and capacity building.

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Comment: Capacity, Implementation Top Challenges  
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¶17. Ambassador Danilovich's visit underscored USG commitment to Mozambique's development and furthered understanding of the MCC program by other donors and Mozambican stakeholders.

In each venue, participants highlighted the importance of developing additional human capacity to implement programs in Mozambique. The private sector and government have limited qualified personnel, and supporting systems and infrastructure are sometimes still nascent and untested. President Guebuza's personal commitment to MCC Compact implementation, reiterated again at a private sector conference November 28, will be vital for implementation and keeping the Compact on schedule.

Chapman